

Redlands Community College

**Financial Statements
with Independent Auditors' Report**

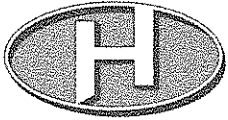
June 30, 2013



Redlands Community College
Table of Contents
June 30, 2013

Independent Auditors' Report on Financial Statements	1
Management's Discussion and Analysis	i
Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	8
Reports Required by <i>Government Auditing Standards</i>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Reports Required by OMB Circular A-133	
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards	39
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	43
Schedule of Findings and Questioned Costs	44
Summary Schedule of Prior Audit Findings	46





**HINKLE &
COMPANY**
PC
*Strategic
Business Advisors*

Independent Auditors' Report

Regents of the College of Oklahoma
Redlands Community College
El Reno, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Redlands Community College, a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013, the related notes to the financial statements, which collectively, comprise the Redlands Community College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Redlands Community College Foundation. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Redlands Community College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Redlands Community College and its component unit as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Redlands Community College taken as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013 on our consideration of the Redlands Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Hickel & Company PC

Tulsa, Oklahoma
November 13, 2013



REDLANDS COMMUNITY COLLEGE

Year Ended June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis of Redlands Community College's (the College) financial statements provides an overview by management of the financial activities for the fiscal year ended June 30, 2013. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting change and current known fact, it should be read in conjunction with the basic financial statements and the notes to the financial statements. Where appropriate, year-to-year comparisons have been made and presented for discussion and analysis.

Financial Highlights

At June 30, 2013, the College's net position was \$7,370,579, which reflects a decrease of \$357,023 over last year. Operating revenue including tuition and fees, federal and state grants and contracts, and auxiliary enterprises totaled \$6,035,473. Net non-operating revenues totaled \$9,724,607, which includes governmental appropriations, non-operating federal and state grants, interest earned, and interest and miscellaneous expense. Operating expenses totaled \$17,265,577, including the provision for depreciation expense.

Using This Annual Report

This report consists mainly of three basic financial statements: *The Statement of Net Position*; *the Statement of Revenues, Expenses, and Changes in Net Position*; and *the Statement of Cash Flows*.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the College as a whole and will reflect whether the institution is better off or worse off as a result of the year's activities. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses reflects the College's operating results.

These two statements report the College's net position and changes in it. Net Position – the differences between assets and liabilities – reflect one way to measure the institution's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether financial health is improving or deteriorating. Other non-financial factors including freshmen class size, student retention, programmatic offerings, etc. must be considered as well to assess the overall health of the institution.

REDLANDS COMMUNITY COLLEGE

Year Ended June 30, 2013

The **Statement of Cash Flows** is another way to assess the financial health of an institution. The primary purpose of the statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet obligations as they come due and its need for external financing.

Other statistical information from the audit report will be presented in this Management's Discussion and Analysis section for explanatory purposes.

The College has four major sources of revenue: (1) tuition and fees, (2) federal and state grants and contracts, (3) sales and services of auxiliary activities, and (4) state appropriations.

1. As a public college in the state system, tuition and fees are now set by the individual college under the guidance of the Oklahoma State Regents for Higher Education, in accordance with legislative policy. Because each public state college is restricted through legislative action to maximum amounts of increases, the opportunities to increase revenue from this source come from larger enrollment numbers rather than from increased costs to enroll.
2. The College explores every opportunity and has been successful in gaining many opportunities for federal and state grants and for contracts and other sources of revenue. Although many times restricted in expense use, these sources are a significant portion of the operational revenue for increasing the programs offered by the College, thereby offering increased incentive for enrollment.
3. Revenue opportunities in the auxiliary services area include the revenue generated by food service and the printing facility. As a governmental agency, the revenue generated from these two enterprises funds the operational expenses and is not designed to increase the overall revenue of the College.
4. One of the most important sources of revenue for a public college in the State of Oklahoma is the state appropriation allocated to the Oklahoma State Regents for Higher Education (OSRHE), which in turn is allocated to each college in the state. Every year, the College campaigns for an increased allocation to support its continued growth and the various programs offered. For several years the College was consistently funded at approximately $\frac{1}{2}$ of 1 percent of the total budget appropriated to the OSRHE, but for the current year the College was funded at approximately $\frac{3}{4}$ of 1 percent. Although this increase is significant, it still leaves the College as one of the lowest funded colleges in the OSRHE system.

REDLANDS COMMUNITY COLLEGE
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE
Comparison of Net Position
For Fiscal Year Ended June 30, 2013

	<u>2013</u>	<u>2012</u>
ASSETS:		
Current Assets	\$ 2,132,353	\$ 1,561,971
Noncurrent Assets:		
Capital Assets, Net of Depreciation	25,350,230	25,979,310
Commissions Receivable	453,074	530,744
Other	<u>238,881</u>	<u>236,803</u>
Total Assets	\$ 28,174,538	\$ 28,308,828
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Cost on OCIA Lease Restructure	\$ 301,545	\$ 402,061
LIABILITIES:		
Current Liabilities	\$ 3,143,477	\$ 1,962,889
Noncurrent Liabilities:		
Note Payable	356,749	370,243
Capital Lease Obligations	17,029,485	17,891,198
Premium on ODFA master lease obligation	17,719	23,212
Revenue Bonds	<u>105,000</u>	<u>205,000</u>
Total Liabilities	\$ 20,652,430	\$ 20,452,542
DEFERRED INFLOWS OF RESOURCES:		
Receipts from Service Concession Arrangement	\$ 453,074	\$ 530,744
NET POSITION:		
Invested in Capital Assets, Net	7,443,426	7,181,134
Restricted	395,910	338,914
Unrestricted	<u>(468,757)</u>	<u>207,554</u>
Total Net Position	<u>\$ 7,370,579</u>	<u>\$ 7,727,602</u>

This schedule is prepared from the College's Statement of Net Position (page 3) which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

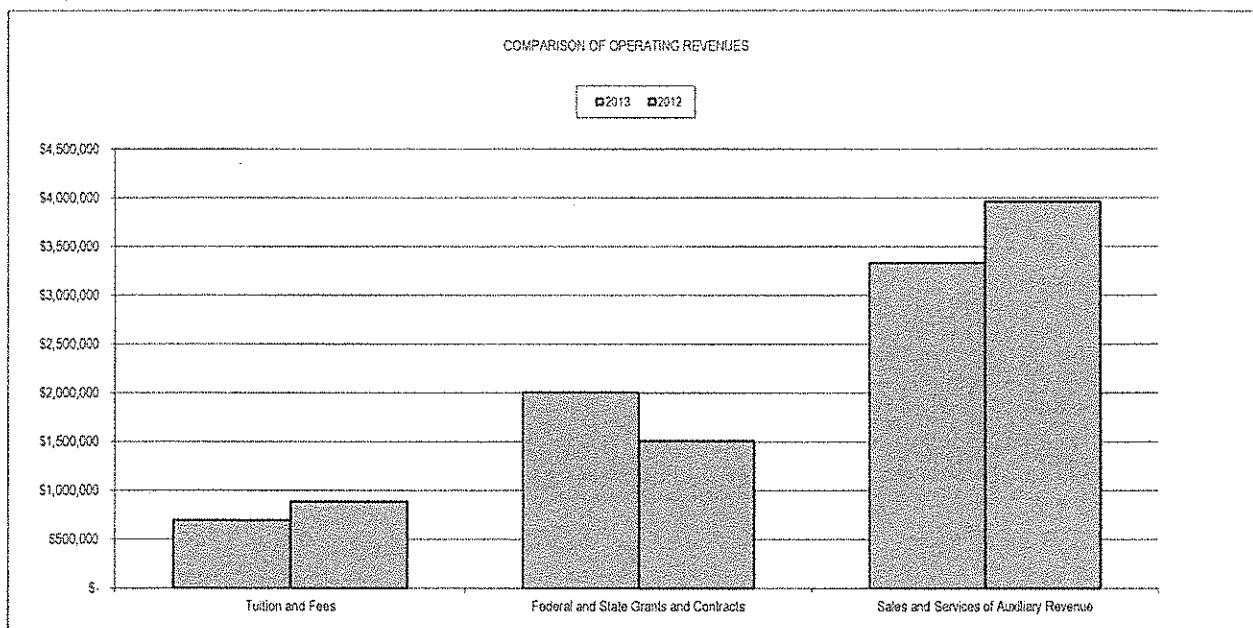
REDLANDS COMMUNITY COLLEGE

Year Ended June 30, 2013

COMPARISON OF OPERATING RESULTS

For Fiscal Year Ended June 30, 2013

	2013	2012
OPERATING REVENUE		
Tuition and Fees	\$ 696,421	\$ 887,129
Federal and State Grants and Contracts	2,005,737	1,508,640
Sales and Services of Auxiliary Revenue	3,333,315	3,961,626
Other Operating Revenues	-	-
Total Operating Revenue	6,035,473	6,357,395
Less: Operating Expenses	(17,265,577)	(17,528,725)
Net Operating Revenue (Loss)	\$ (11,230,104)	\$ (11,171,330)
NONOPERATING REVENUE		
State Appropriations	6,292,487	6,232,517
On-behalf payments for OTRS	447,000	430,000
Federal and State grants - non-operating	3,518,100	4,265,249
Investment Income	2,927	-
Interest on Capital Debt & Misc. Expense	(535,907)	(737,662)
Net Nonoperating Revenue (Loss)	\$ 9,724,607	\$ 10,190,104
OTHER REVENUES	\$ 1,148,474	\$ 1,036,465
NET POSITION		
Change in Net Position	(357,023)	55,240
Net Position, Beginning of Year	7,727,602	7,672,362
Net Position, End of Year	\$ 7,370,579	\$ 7,727,602



REDLANDS COMMUNITY COLLEGE
Year Ended June 30, 2013

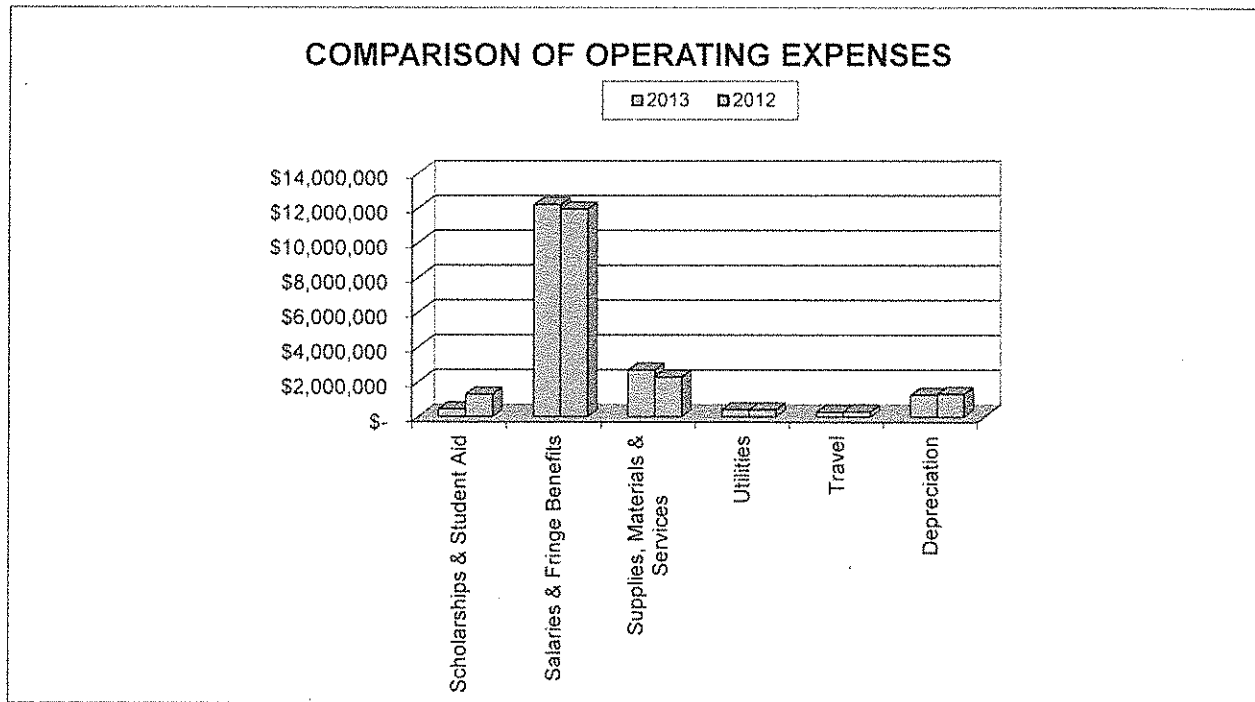
CASH FLOWS
For Fiscal Year Ended June 30, 2013

	<u>2013</u>	<u>2012</u>
Cash Provided (used) by:		
Operating Activities	\$ (9,083,761)	\$ (9,730,716)
Non-Capital Financing Activities	9,807,618	10,485,944
Capital and Related Financing	(531,612)	(1,276,014)
Investing Activities	<u>848</u>	<u>(7,408)</u>
Net Increase (Decrease) in Cash	193,093	(528,194)
 Cash, Beginning of Year	 <u>193,329</u>	 <u>721,523</u>
Cash, End of Year	<u><u>\$ 386,422</u></u>	<u><u>\$ 193,329</u></u>

COMPARISON OF OPERATING EXPENSES
For Fiscal Year Ended June 30, 2013

	<u>2013</u>	<u>2012</u>
OPERATING EXPENSE		
Scholarships & Student Aid	\$ 441,078	\$ 1,292,610
Salaries & Fringe Benefits	12,181,555	11,923,000
Supplies, Materials & Services	2,687,490	2,282,630
Utilities	416,903	416,149
Travel	274,469	301,513
Depreciation	<u>1,264,080</u>	<u>1,312,823</u>
Total Operating Expenses	<u><u>\$ 17,265,575</u></u>	<u><u>\$ 17,528,725</u></u>

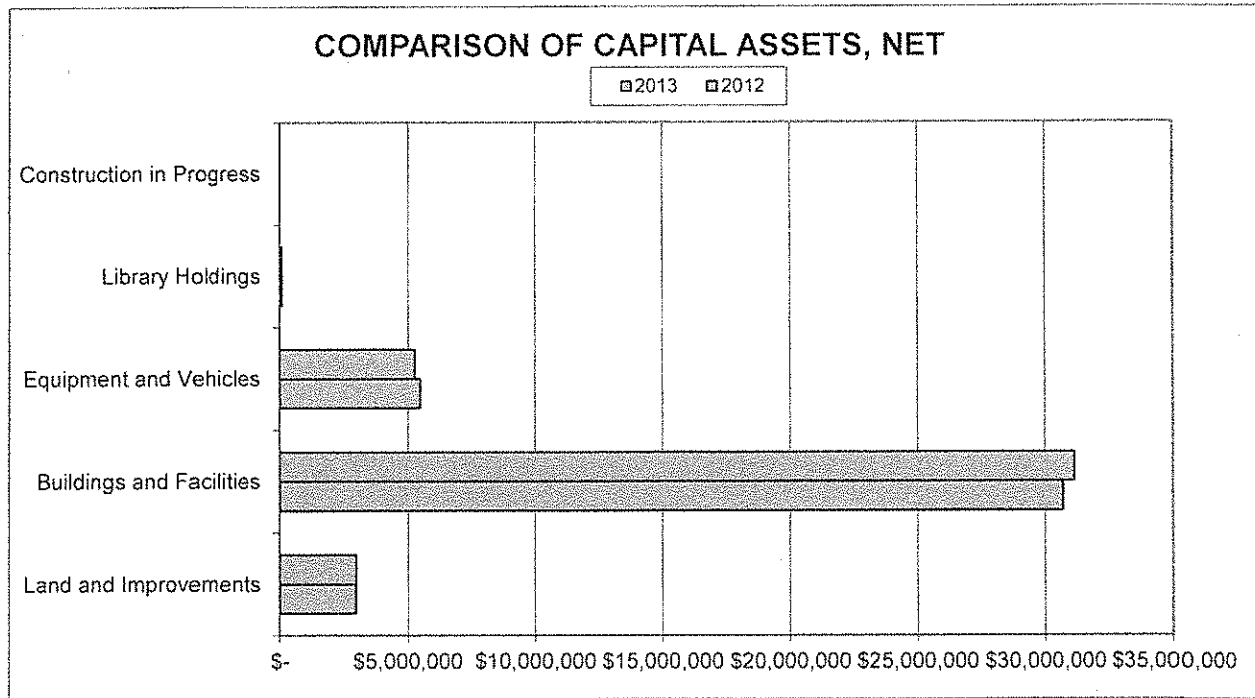
REDLANDS COMMUNITY COLLEGE
Year Ended June 30, 2013



COMPARISON OF CAPITAL ASSETS, NET
For Fiscal Year Ended June 30, 2013

	2013	2012
CAPITAL ASSETS		
Land and Improvements	\$ 2,992,790	\$ 2,977,836
Buildings and Facilities	31,145,944	30,692,843
Equipment and Vehicles	5,266,958	5,481,273
Library Holdings	102,076	102,076
Construction in Progress	-	-
Total Capital Assets	<u>39,507,768</u>	<u>39,254,028</u>
Less Accumulated Depreciation	<u>(14,157,538)</u>	<u>(13,274,718)</u>
Net Capital Assets	<u>\$ 25,350,230</u>	<u>\$ 25,979,310</u>

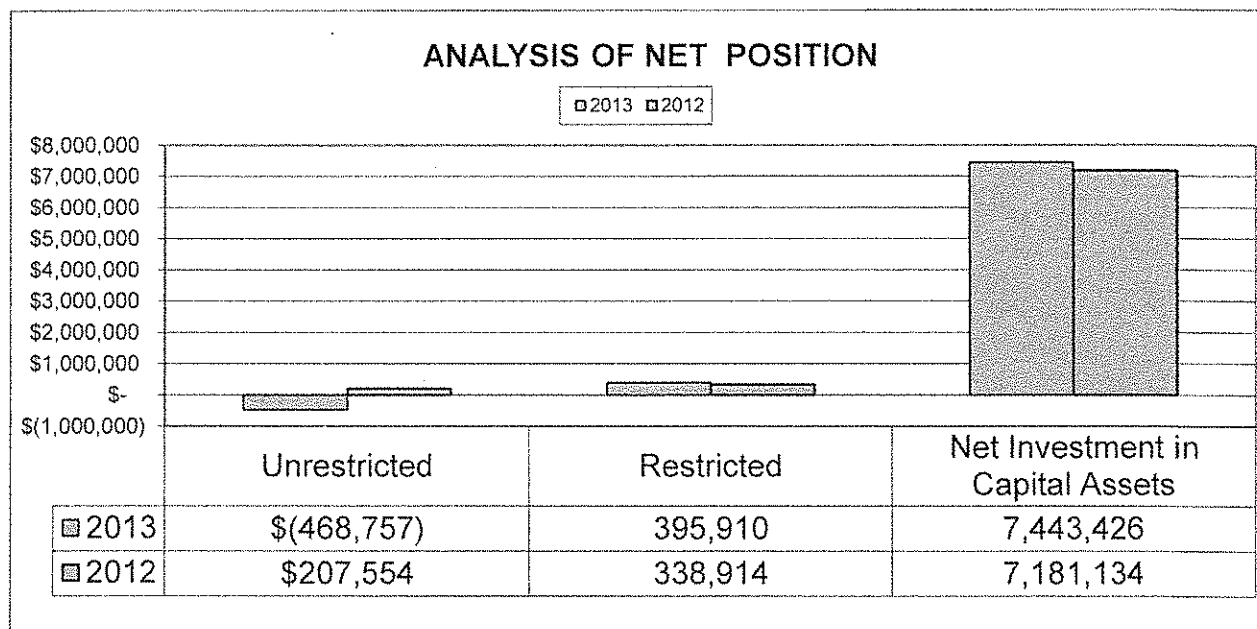
REDLANDS COMMUNITY COLLEGE
Year Ended June 30, 2013



REDLANDS COMMUNITY COLLEGE
Year Ended June 30, 2013

ANALYSIS OF NET POSITION
For Fiscal Year Ended June 30, 2013

	<u>2013</u>	<u>2012</u>
NET ASSETS		
Unrestricted	\$ (468,757)	\$ 207,554
Restricted	395,910	338,914
Invested in Capital Assets, Net	<u>7,443,426</u>	<u>7,181,134</u>
Net Capital Assets	<u><u>\$ 7,370,579</u></u>	<u><u>\$ 7,727,602</u></u>



Redlands Community College
Statement of Net Position
June 30, 2013

	<u>Redlands Community College</u>	<u>Redlands Community College Foundation</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 386,422	\$ 136,315
Accounts receivable, net of allowance for doubtful accounts of \$413,512	1,257,330	—
Grants receivable	488,004	—
Other receivables	<u>597</u>	<u>60,000</u>
Total Current Assets	<u>2,132,353</u>	<u>196,315</u>
Noncurrent Assets		
Restricted Investments	238,881	7,642
Beneficial interests in assets held by others	—	475,684
Commissions receivable	453,074	—
Other assets	—	194,187
Capital assets, net of accumulated depreciation	<u>25,350,230</u>	<u>3,220,060</u>
Total Noncurrent Assets	<u>26,042,185</u>	<u>3,897,573</u>
Total Assets	<u>28,174,538</u>	<u>4,093,888</u>
Deferred outflow of resources		
Deferred costs on OCIA lease restructure	<u>301,545</u>	—
LIABILITIES		
Current Liabilities		
Accounts payable	892,396	—
Accrued expenses	42,234	—
Accrued interest	6,574	—
Accrued compensated absences	196,467	—
Deferred revenue	388,034	59,312
Long-term liabilities, current portion	1,098,534	—
Deposits held in custody for others	<u>519,238</u>	<u>194,187</u>
Total Current Liabilities	<u>3,143,477</u>	<u>253,499</u>
Noncurrent Liabilities		
Long term liabilities	<u>17,508,953</u>	<u>3,100,000</u>
Total Noncurrent Liabilities	<u>17,508,953</u>	<u>3,100,000</u>
Total Liabilities	<u>20,652,430</u>	<u>3,353,499</u>
Deferred inflow of resources		
Receipts from service concession arrangements	<u>453,074</u>	—
NET POSITION		
Invested in capital assets	7,443,426	
Restricted for		
Debt service	238,881	483,326
Donor restrictions	157,029	
Scholarships		60,407
Unrestricted	<u>(468,757)</u>	<u>196,656</u>
Total Net Position	<u>\$ 7,370,579</u>	<u>\$ 740,389</u>



Redlands Community College
Statement of Revenues, Expenses and Changes in Net Position
June 30, 2013

	<u>Redlands Community College</u>	<u>Redlands Community College Foundation</u>
Operating Revenues		
Student tuition and fees, net of scholarship allowances of \$3,083,000	\$ 696,421	\$ —
Federal and state grants and contracts	2,005,737	—
Sales and services of auxiliary activities (revenues of \$152,000 are pledged as security for the 1993 Student Center Revenue Bonds)	3,333,315	—
Other operating revenues	<u>—</u>	<u>49,636</u>
Total Operating Revenues	<u>6,035,473</u>	<u>49,636</u>
Operating Expenses		
Compensation	12,181,555	—
Supplies and materials	2,687,492	—
Depreciation	1,264,080	40,563
Utilities	416,903	—
Travel	274,469	108
Scholarships and fellowships	441,078	34,850
Other operating expenses	<u>—</u>	<u>15,345</u>
Total Operating Expenses	<u>17,265,577</u>	<u>90,866</u>
Operating Loss	<u>(11,230,104)</u>	<u>(41,230)</u>
Nonoperating Revenues (Expenses)		
State appropriations	6,292,487	—
Federal and state grants	3,518,100	—
On-behalf Teachers' Retirement System contributions	447,000	—
Other operating expenses	(2,969)	—
Investment income	2,927	52,575
Interest expense	<u>(532,938)</u>	<u>—</u>
Net Nonoperating Revenues	<u>9,724,607</u>	<u>52,575</u>
Loss Before Other Revenues, Expenses, Gains, and Losses	<u>(1,505,497)</u>	<u>11,345</u>
Other Revenues, Expenses, Gains, and Losses		
On-behalf Oklahoma Capital Improvement Authority contributions	243,983	—
Capital appropriations	<u>904,491</u>	<u>—</u>
Other Revenues and Gains	<u>1,148,474</u>	<u>—</u>
Change in Net Position	(357,023)	11,345
Net Position at Beginning of Year	<u>7,727,602</u>	<u>729,044</u>
Net Position at End of Year	<u>\$ 7,370,579</u>	<u>\$ 740,389</u>



Redlands Community College
Statement of Cash Flows
June 30, 2013

	<u>Redlands Community College</u>
Cash Flows from Operating Activities	
Tuition and fees	\$ 528,827
Grants and contracts	1,788,996
Payments to employees	(11,731,629)
Payments to vendors	(3,016,324)
Auxiliary enterprise	3,346,367
Other receipts	<u>—</u>
Net Cash Used in Operating Activities	<u>(9,083,763)</u>
Noncapital Financing Activities	
State appropriations	6,292,487
State appropriations - ARRA	<u>—</u>
Federal and state grants	3,518,100
Federal Family Education Loan receipts	2,579,371
Federal Family Education Loan disbursements	(2,579,371)
Agency transactions, net	<u>(2,969)</u>
Net Cash Provided by Noncapital Financing Activities	<u>9,807,618</u>
Capital and Related Financing Activities	
Capital appropriations	904,491
Payments on bonds and lease payable	(798,916)
Proceeds from capital lease obligations	<u>—</u>
Purchases of capital assets	<u>(637,186)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(531,611)</u>
Investing Activities	
Sales and maturities of investments	(2,078)
Interest on investments	<u>2,926</u>
Net Cash Used in Investing Activities	<u>848</u>
Net Increase (decrease) in Cash	193,093
Cash and Cash Equivalents at Beginning of Year	<u>193,329</u>
Cash and Cash Equivalents at End of Year	\$ <u>386,422</u>



Redlands Community College
Statement of Cash Flows
June 30, 2013
(Continued)

	<u>Redlands Community College</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (11,230,104)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization expense	1,264,080
On-behalf Teachers' Retirement System contributions	447,000
Loss on disposal of assets	2,186
Changes in assets and liabilities	
Receivables, net	(377,289)
Accounts payable	739,208
Accrued expenses	66,832
Compensated absences	(1,682)
Unearned revenues	<u>6,006</u>
Net Cash Used in Operating Activities	\$ <u>(9,083,763)</u>
Supplemental Cash Flow Information	
Accounts payable related to capital assets	\$ <u> —</u>
Principal and interest paid by OCIA	\$ <u> 243,983</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position	
Current cash and cash equivalents	\$ 386,422
Noncurrent cash and cash equivalents	<u> —</u>
	\$ <u>386,422</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Redlands Community College (the "College") is a two year college operating under the jurisdiction of the Board of Regents of Redlands Community College, (the "Board of Regents"), and is part of the Oklahoma System of Higher Education.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The accompanying financial statements include the accounts and funds of the College and the Winery. The College is governed by the Board of Regents of the College of Oklahoma, and is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the state as part of the higher education component unit.

Redlands Community College Foundation, Inc., (the "Foundation") is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, and for the benefit of, the College, the Foundation is considered a component unit of the College and its financial statements are separately presented in the College's financial statements. The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board ("FASB") standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Financial Statement Presentation

The College's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

Under GASB Statement No. 34 and GASB Statement No. 35, the College is required to present a statement of net position classified between current and noncurrent assets and liabilities; a statement of revenues, expenses, and changes in net position with separate presentation for operating and nonoperating revenues and expenses; and a statement of cash flows using the direct method.

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, except for deposits held by the College's trustee related to debt service payments on revenue bonds. Funds invested through the state treasurer are considered cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Deposits and Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as restricted assets in the statements of net position. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures and Amendment of GASB Statement No. 3*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the state of Oklahoma. Accounts receivable also include amounts due from the federal, state, and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history, and the condition of the general economy and the industry as a whole. The College writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester. Interest and late charges are generally not assessed, however, if they are assessed, they are not included in income until received.

Grants Receivable

Grants receivable includes amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, make long-term student loans, or to purchase capital or other noncurrent assets are classified as noncurrent assets in the statements of net position.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The College's capitalization policy for buildings includes all items with a unit cost of \$25,000 or more and an estimated useful life of at least 10 years. The College's capitalization policy for improvements other than buildings includes all items with a unit cost of \$5,000 or more. The College's capitalization policy for furniture and fixtures includes all items with a unit cost of \$2,500 or more and an estimated useful life of greater than one year.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The College's capitalization policy for information technology equipment includes all items with a unit cost of \$500 or more and an estimated useful life of greater than one year. Library books are capitalized at cost if the item becomes part of the volume count for the library. The College does not provide for depreciation of its library books.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure and land improvements, and 3 to 7 years for library materials and equipment, or the duration of the lease term for capital leases.

Compensated Absences

Employee vacation pay is accrued at year end for financial statement purposes. The liability and expense incurred are recorded at year end as accrued expenses in the statements of net position and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net position.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year, (2) pension liabilities that will not be paid within the next fiscal year, and (3) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Position

The College's net position is classified as follows:

Invested in Capital Assets; This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Position – Nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Unrestricted Net Position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of educational departments and of auxiliary enterprises, and (3) certain federal, state, and nongovernmental grants and contracts.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The College, as a political subdivision of the State of Oklahoma, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).

Subsequent Events

Subsequent events have been evaluated through November 13, 2013, which is the date the financial statements were issued.

Note 2: Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The College's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The College requires that balances on deposit with financial institutions, including trustees related to the College's bond indenture and capital lease agreements, be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the College's name.

At June 30, 2013, the carrying amount of the College's deposits was \$386,422. These amounts consisted of deposits with the State Treasurer \$386,422 at June 30, 2013.

Interest Rate Risk

The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 2: Deposits and Investments (Continued)

Credit Risk

All United States government obligations are held by the Federal Reserve Bank in the name of the College. Title 70, Section 4306, of the Oklahoma statutes directs, authorizes, and empowers the College's Board of Regents to hold, invest, or sell donor-restricted endowments in a manner which is consistent with the terms of the gift as stipulated by the donor and with the provision of any applicable laws.

The Board has authorized short-term funds to be invested in any security currently available through the Oklahoma State Treasurer's Office. Generally, these include direct obligations of the United States Government and its agencies, certificates of deposit, and demand deposits. The Board has authorized endowment and similar funds to be invested in direct obligations of the United States Government and its agencies, certificates of deposit, prime commercial paper, bankers' acceptances, demand deposits, corporate debt (no bond below a *Single A* rating by Moody's Investors Service or Standard & Poor's Corporation may be purchased), convertible securities, and equity securities.

Investment maturities were as follows at June 30, 2013:

2013 Investment Type	Fair Market	Investment Maturities (in Years)				
		Not Applicable	Less Than One	One to Five	Six to Ten	More Than Ten
Money Market	<u>238,881</u>	<u>238,881</u>				
	\$ <u>238,881</u>	\$ <u>238,881</u>	\$ _____	\$ _____	\$ _____	\$ _____

Concentration of Credit Risk

The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

Note 3: Accounts Receivable, Net

Accounts receivable consisted of the following at June 30:

	<u>2013</u>
Student tuition and fees	\$ 1,670,842
Auxiliary enterprises and other operating activities	<u>—</u>
	1,670,842
Less allowance for doubtful accounts	<u>(413,512)</u>
	\$ <u>1,257,330</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 4: Capital Assets, Net

Following are the changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets not being depreciated					
Land	\$ 874,082	\$ —	\$ —	\$ —	\$ 874,082
Library holdings	102,076	—	—	—	102,076
Construction in progress	—	—	—	—	—
Total capital assets not being depreciated	<u>\$ 976,158</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 976,158</u>
Other capital assets					
Land improvements	\$ 2,103,754	\$ 14,954	\$ —	\$ —	\$ 2,118,708
Building and facilities	30,692,843	453,101	—	—	31,145,944
Equipment and vehicles	5,481,273	169,131	—	(383,446)	5,266,958
Total other capital assets	<u>38,277,870</u>	<u>637,186</u>	<u>—</u>	<u>(383,446)</u>	<u>38,531,610</u>
Less accumulated depreciation for					
Land improvements	(1,131,381)	(94,497)	—	—	(1,225,878)
Building and facilities	(7,879,059)	(777,027)	—	—	(8,656,086)
Equipment and vehicles	(4,264,278)	(392,556)	—	381,260	(4,275,574)
Total accumulated depreciation	<u>(13,274,718)</u>	<u>(1,264,080)</u>	<u>—</u>	<u>381,260</u>	<u>(14,157,538)</u>
Other capital assets, net	<u>\$ 25,003,152</u>	<u>\$ (626,894)</u>	<u>\$ —</u>	<u>\$ (2,186)</u>	<u>\$ 24,374,072</u>
Total Capital Assets, net	<u>\$ 25,979,310</u>	<u>\$ (626,894)</u>	<u>\$ —</u>	<u>\$ (2,186)</u>	<u>\$ 25,350,230</u>

At June 30, 2013, the cost of assets held under capital lease obligations and included in capital assets was \$13,122,797.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The College capitalizes interest as a component of capital assets constructed for its own use. In 2013, total interest cost incurred was \$532,938 of which \$ 0 was capitalized.

Note 5: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Due Within One Year
Bonds and capital lease obligations, net of bond premium or discount					
Revenue bond payable	\$ 300,000	\$ —	\$ (95,000)	\$ 205,000	\$ 100,000
OCIA capital lease obligations	7,117,701	—	(120,000)	6,997,701	183,713
ODFA master lease revenue bonds	11,412,537	—	(377,994)	11,034,543	801,328
Notes payable	384,998	—	(14,754)	370,244	13,493
Total bonds and capital lease	<u>19,215,236</u>	<u>—</u>	<u>(607,748)</u>	<u>18,607,488</u>	<u>1,098,534</u>
Other liabilities					
Accrued compensated absences	198,149	196,467	(198,149)	196,467	196,467
Total other liabilities	<u>198,149</u>	<u>196,467</u>	<u>(198,149)</u>	<u>196,467</u>	<u>196,467</u>
Total long-term liabilities	<u>\$ 19,413,385</u>	<u>\$ 196,467</u>	<u>\$ (805,897)</u>	<u>\$ 18,803,955</u>	<u>\$ 1,295,001</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Student Center Revenue Bonds, Series 1993

The Board of Regents authorized the College to issue the Student Center Revenue Bonds, Series 1993 (the "Series 1993 Bonds") dated December 1, 1993, in the amounts of \$1,325,000. The Series 1993 Bonds mature July 1 of each year beginning July 1, 1994 through July 1, 2014, in annual amounts varying from \$35,000 to \$105,000, interest rates ranging from 5% to 8%. The remaining balance outstanding was \$205,000 at June 30, 2013. The Series 1993 Bonds are payable from pledged revenues derived from a student center fee, net revenues from the operation of the book store, student shop, food service facilities, game room and other ancillary services, and the reserve account held by the bond trustees. The College paid \$95,000 in principle and \$15,684 in related interest on these bonds during 2013.

The schedule of maturities of the bonds is as follows:

Years Ending June 30,	Principal	Interest	Total
2014	\$ 100,000	\$ 6,563	\$ 106,563
2015	<u>105,000</u>	<u>—</u>	<u>105,000</u>
	<u>\$ 205,000</u>	<u>\$ 6,563</u>	<u>\$ 211,563</u>

The trust agreements for the Revenue Bonds Series provide that bond proceeds and pledged revenues be used to establish various bond sinking funds and reserve funds (see Note 2).

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$535,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the College.

In May 2013, the College's 1999 Series B lease agreement with the Oklahoma Capital Improvement Authority (OCIA) was restructured through a refunding of OCIA's 1999B bond debt. OCIA issued a new bond, Series 2013B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents allocated \$6,770,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 25 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the College.

In August 2010 the College's 2005 Series F lease agreement with the Oklahoma Capital Improvement Authority (OCIA) was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. The College has recorded a charge of \$603,090 on restructuring as a deferred cost that will be amortized over a period of 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$29,806 which also approximates the economic cost of the lease restructuring.

Through June 30, 2010, the College has drawn its total allotment for expenditures incurred in connection with the project. The expenditures have been capitalized as investments in capital assets in accordance with College policy. The College has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made.

During the year ended June 30, 2013, OCIA made lease principal and interest payments totaling \$238,489 on behalf of the College. These payments have been recorded as on-behalf OCIA contributions in the statements of revenues, expenses, and changes in net position.

During the year ended June 30, 2013, the College recognized \$100,515 of amortization on the deferred cost of lease restructuring on the OCIA Series 2005F lease obligation, leaving a balance of the unamortized deferred costs of \$301,545. The unamortized deferred cost is included in the deferred outflows of resources in the accompanying financial statements.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

Future minimum lease payments under the College's obligation to the OCIA are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 183,713	\$ 286,334	\$ 470,047
2015	666,199	277,882	944,081
2016	520,425	261,223	781,648
2017	630,171	272,765	902,936
2018	658,434	244,567	903,001
2019-2023	1,031,408	939,824	1,971,232
2024-2028	1,914,275	642,092	2,556,367
2029-2031	1,393,076	140,745	1,533,821
	<u>\$ 6,997,701</u>	<u>\$ 3,065,432</u>	<u>\$ 10,063,133</u>

Oklahoma Development Finance Authority Master Lease

In December 2004, the College entered into a 10 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2004C. The College financed \$673,771 to upgrade the College's energy management systems.

In December 2006, the College entered into a 15 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2006A. The College financed \$806,783 to upgrade the College's real property.

In December 2008, the College entered into a 15-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2008A. The College received a net amount of \$985,768 (includes \$17,768 of bond premium) of the proceeds for improvements to the College's equipment.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Oklahoma Development Finance Authority Master Lease (Continued)

In December 2009, the College entered into a 5 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2009A. The College financed \$505,716, (includes \$5,716 of bond premium) for improvements to the College's technology equipment.

In December 2009, the College entered into a 25 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2009C. The College financed \$510,281, (includes \$281 of bond premium) for improvements to the College's real property.

In December 2009, the College entered into a 30 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2009D. The College financed \$8,190,000 for the purchase of real property.

In May 2010, the College entered into a 5 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2010A. The College financed \$377,880, (includes \$14,880 of bond premium) for improvements to the College's equipment.

In September 2010, the College entered into a 25 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Equipment Master Lease Revenue Bonds, Series 2010A. The College financed \$599,482 (includes \$4,482 of bond premium) for improvements to the College's real property.

In September 2010, the College entered into a 25 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Taxable Real Property Equipment Master Lease Revenue Bonds, Series 2010B. The College financed \$720,000 for improvements to the College's real property.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Oklahoma Development Finance Authority Master Lease (Continued)

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. The College paid \$372,500 in principal and \$274,556 in related interest on these bonds during 2013.

The schedule of maturities of the bonds is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 801,328	\$ 643,676	\$ 1,445,004
2015	454,948	427,021	881,969
2016	368,375	421,450	789,825
2017	373,208	404,750	777,958
2018	388,208	391,617	779,825
2019-2023	2,050,792	1,731,328	3,782,120
2024-2028	1,751,150	1,348,256	3,099,406
2029-2033	2,157,869	929,692	3,087,561
2034-2038	2,257,832	406,545	2,664,377
2039-2043	430,833	19,818	450,651
	<u>\$ 11,034,543</u>	<u>\$ 6,724,153</u>	<u>\$ 17,758,696</u>

The ODFA Series 2008 bonds were issued at a premium. The College's pro rata portion of the premium was \$17,768. During 2013, the College recognized \$1,185 of amortization, leaving a balance of the unamortized bond premium of \$12,043. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Series 2009A bonds were issued at a premium. The College's pro rata portion of the premium was \$5,716. During 2013, the College recognized \$1,143 of amortization, leaving a balance of the unamortized bond premium of \$1,238. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Series 2009C bonds were issued at a premium. The College's pro rata portion of the premium was \$281. During 2013, the College recognized \$11 of amortization, leaving a balance of the unamortized bond premium of \$237. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 5: Long-term Liabilities (Continued)

Oklahoma Development Finance Authority Master Lease (Continued)

The ODFA Series 2010A bonds were issued at a premium. The College's pro rata portion of the premium was \$14,880. During 2013, the College recognized \$2,976 of amortization, leaving a balance of the unamortized bond premium of \$5,704. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Real Property Series 2010A bonds were issued at a premium. The College's pro rata portion of the premium was \$4,482. During 2013, the College recognized \$179 of amortization, leaving a balance of the unamortized bond premium of \$3,989. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

Note 6: Notes Payable

In October 2009, the College entered into a \$407,844 term loan to finance the purchase of real estate. The loan has an initial maturity of October 2014, based on a twenty-year amortization rate at 6%. This loan will be renewed at the same terms and conditions on each maturity as long as terms and conditions are met. Annual payments will approximate \$35,000 through September 2014, with a balloon payment of \$360,868 due in October 2014, unless the loan is renewed. The College paid \$14,754 in principal and \$26,152 in related interest on this loan during 2013.

Scheduled principal and interest payments related to the notes at June 30, 2013, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	13,493	21,570	35,063
2015	356,749	7,007	363,756
	<u>\$ 370,242</u>	<u>\$ 28,577</u>	<u>\$ 398,819</u>

Note 7: Service Concession Arrangement

On May 1, 2009, the College entered into an agreement with Follett Higher Education Group (Follett), under which Follett will operate the bookstore for the next 10 years. Follett will pay the College installment payments over the course of the arrangement; the present value of these installment payments is estimated to be \$776,699. Follett will also pay the College 8 percent of revenues up to \$1.5 million and 10 percent of revenues over \$1.5 million that it earns from the operation of the bookstore. Follett is required to operate and maintain the bookstore in accordance with the contract. The College reports a receivable and deferred inflow of resources in the amount of \$453,074 at June 30, 2013 pursuant to the service concession arrangement.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 8: Retirement Programs

Substantially all of the College's academic and nonacademic personnel are covered by the Oklahoma Teachers' Retirement System (the OTRS), which is a State of Oklahoma public employee retirement system. Certain eligible employees also participate in the Supplemental Retirement Plan, a single-employer defined benefit plan. The College does not maintain the accounting records, hold the investments for, or administer the OTRS plan.

Oklahoma Teachers' Retirement System

Plan Description

The College contributes to the OTRS, a cost-sharing multiple-employer defined-benefit pension plan sponsored by the State of Oklahoma. The OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of the OTRS. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for the OTRS. That annual report may be obtained by writing to the OTRS, P.O. Box 53524, Redlands, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS web site at www.trs.state.ok.us.

Funding Policy

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013. In 2013, the College contributed the required amount of 9.5% for participating members.

The College's contributions to the OTRS for the year ended June 30, 2013 were approximately \$590,000, equal to the required contributions for each year. These contributions included the College's statutory contribution and the share of the employee's contribution paid directly by the College.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2013, the State of Oklahoma contributed 3.54% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The College has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2013, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the College were approximately \$447,000, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 9: Related Party Transactions

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. On July 1, 1990, the College entered into a written agreement with the Foundation whereby the College agreed to pay for certain administrative services incurred by the Foundation. The following transactions occurred between the College and the Foundation during the years ended June 30:

	<u>2013</u>
Scholarship funds awarded to the College	\$ <u>34,850</u>
Payment of services to the Foundation	\$ <u>6,500</u>

Note 10: Commitments and Contingencies

The College is party to litigation and claims arising in the normal course of business. In the opinion of management, liabilities, if any, resulting from such litigation and claims will not be material to the College.

The College conducts certain programs pursuant to various grants and contracts, which are subject to audit by various federal and state agencies. Costs questioned as a result of audits, if any, may result in refunds to these governmental agencies from various sources of the College.

The College participates in the Federal Family Education Loan Program (the "FFEL Program"), which includes the Federal Stafford Loan Program and Federal Parents Loan for Undergraduate Students programs. The FFEL program does not require the College to draw down cash; however, the College is required to perform certain administrative functions under the FFEL program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2013, approximately \$2,579,000 of FFEL program loans were provided to College students.

On March 28, 2012 the College entered into a guaranty agreement with Redlands/EI Reno II, LLC in order to induce Redlands/EI Reno II, LLC to enter into a sublease with the Foundation for Phase II of the Cougar Crossing student housing. The College guarantees to Redlands/EI Reno II, LLC the payment and performance of the sublease until the sublease expires September, 2062. The terms of the sublease state that the Foundation will pay base rent of no less than \$350,064 per fiscal year in equal monthly installments of \$29,172, effective January 10, 2013. The base rent shall be increased annually by an amount equal to 2 ½ percent of the base rent for the preceding fiscal year. In addition to base rent, the Foundation will pay 50 percent of any gross revenues collected in excess of the minimum rent ("percentage rent"). The Foundation will also pay a management fee in equal monthly installments of \$1,250, beginning September 1, 2012. The College does not expect to recover any amounts from the Foundation for losses that may occur. Although the College has estimated the possible loss, under current circumstances, it does not appear likely the College will be required to make payment. When payment by the College is expected, a liability will be recorded in the financial statements.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 10: Commitments and Contingencies (Continued)

The schedule of possible loss to the College due to this guaranty is as follows:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Base rent	\$ 354,440	\$ 33,205,002	\$ 33,559,442
Management fee	15,000	722,500	737,500
	<u>\$ 369,440</u>	<u>\$ 33,927,502</u>	<u>\$ 34,296,942</u>

During the ordinary course of business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the College at June 30, 2013 that management believes would result in a material loss to the College in the event of an adverse outcome.

Note 11: Risk Management

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omission; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program public entity risk pool currently operating as a common risk management and insurance program for its members. The College pays annual premiums to the pool for its tort, property, and liability insurance coverage. The Oklahoma Risk Management pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The College also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an interlocal cooperative act agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through CompSource. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 12: Accounting Standards Issued Not Yet Adopted

Fiscal Year Ended June 30, 2014

- Statement No. 69, Government Combinations and Disposals of Government Operations

The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. GASB No. 69 was issued in January 2013, and the College has not yet determined the impact that implementation of GASB No. 69 will have on its net position.

- Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

The provisions of Statement 70 addresses the accounting treatment for those governments that have extends or receives nonexchange financial guarantees. GASB No. 70 was issued in April 2013, and the College has not yet determined the impact that implementation of GASB No. 70 will have on its net position.

Fiscal Year Ended June 30, 2015

- Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the College has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

Note 13: Redlands Community College Foundation, Inc.

The following are significant disclosures of the Foundation:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Redlands Community College Foundation, Inc. (the Foundation) is a nonprofit organization organized in 1977 and is located in El Reno, OK. The Foundation amended its certificate of incorporation from the State of Oklahoma during September, 1991. The mission of the Foundation is to benefit, support and enhance the development and priorities of the Redlands Community College (RCC). The primary purposes of the Foundation are to



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fund scholarships to students attending RCC and to provide resources to supplement college operations. The efforts of the Foundation are to generate funds which shall be in alignment with the academic needs and priorities of RCC. The Foundation shall ensure integrity to meet donor expectations.

BASIS OF ACCOUNTING

The Foundation prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this method of accounting revenues are recognized when received and expenses when paid. Property and equipment items are capitalized and depreciated over their estimated useful lives.

BASIS OF PRESENTATION

In accordance with accounting principles generally accepted in the United States of America, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted; temporarily restricted; and permanently restricted.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. These funds represent resources over which the Board of Directors has discretionary control and are used to carry out operations in accordance with its bylaws.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that will be met, either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that neither expire with time nor can be fulfilled or otherwise removed by the actions of the Foundation.

CASH AND CASH EQUIVALENTS

The Foundation considers all cash and highly liquid investments with original maturities of three months or less to be cash equivalents.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

Investments are reported at fair value based on quoted market prices. Unrealized and realized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets - modified cash basis. Investment earnings, net of related expenses, are reported as unrestricted unless specific restrictions apply.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are three to ten years for equipment and furniture and fixtures and twenty years for buildings and related components.

ENDOWMENT FUNDS

The Foundation's endowment consists of 23 individual funds established for a variety of purposes. The endowment is comprised of donor-restricted endowment funds. As required by authoritative guidance, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation/depreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ENDOWMENT FUNDS (Continued)

The Foundation invests its endowment funds with the Oklahoma City Community Foundation (OCCF). In doing so, the Foundation has inherently accepted the investment policies of the OCCF. The Foundation believes the investment policies of the OCCF, when applied to the endowment funds, facilitate the Foundation's ability to provide funding for programs and provide adequate returns for invested funds. Under the OCCF's investment policy, the endowment assets are invested in a manner that is intended to provide acceptable investment returns, while assuming a moderate level of investment risk. This investment policy expects its endowment funds, over time, to provide an average rate of return that is consistent with historical returns of assets allocated 65% equity and 35% fixed income and non-equity investments. Actual returns in any given year are dependent on market conditions and other factors, and they may vary from the expected investment return. To satisfy its long-term rate-of-return objectives, the Foundation relies on the OCCF's investment policy, which has a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

CONTRIBUTIONS

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

USE OF ESTIMATES

Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 – ASSETS HELD FOR OTHERS

Assets held for others represents the portion of assets related to RCC groups or associations in which the Foundation is the custodian. The Foundation has recorded an asset and an offsetting liability to record these funds. The asset consists of cash of \$132,224 and \$121,797 and certificates of deposit of \$61,963 and \$61,963 as of January 31, 2013 and 2012, respectively, and is carried at fair value. The liability for assets held for others is equal to the fair value of the assets.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 3 – GROUND LEASE RECEIVABLE

On March 28, 2012, the Foundation entered into a Ground Lease Agreement with Redlands/El Reno II, LLC, in which the Foundation is to rent land to Redlands/El Reno II, LLC for the purpose of building additional student housing (Note 9). The lease was to begin on the date the construction of the housing was substantially complete (August 15, 2012) at an annual amount of \$1,500 for forty years, which was to be prepaid in full by Redlands/El Reno II, LLC as of the date of the agreement. As of January 31, 2013, the prepayment of the lease by Redlands/El Reno II, LLC had not been received and is recorded in the statement of assets, liabilities, and net assets - modified cash basis as ground lease receivable in the amount of \$60,000. The lease income will be matched to the period in which it was earned. Therefore, the Foundation has recognized lease income of \$688 related to the ground lease for the year ended January 31, 2013, with the remaining \$59,312 included in unearned lease income as a liability in the statement of assets, liabilities, and net assets – modified cash basis as of January 31, 2013.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of January 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 157,000	\$ 157,000
Building	3,218,753	118,753
Equipment	29,458	29,458
Furniture and Fixtures	17,844	17,844
	<u>\$ 3,423,055</u>	<u>\$ 323,055</u>
Less Accumulated Depreciation	202,995	162,432
<u>Total Property and Equipment, Net</u>	<u>\$ 3,220,060</u>	<u>\$ 160,623</u>

NOTE 5 – LONG TERM INVESTMENTS

Long term investments are permanently restricted funds that are held temporarily until suitable long-term investment opportunities are identified. Long term investments consist of the following as of January 31:

	<u>2013</u>	<u>2012</u>
Certificates of Deposit	\$ 3,288	\$ 3,288
Mutual Funds	4,354	3,972
	<u>\$ 7,642</u>	<u>\$ 7,260</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 6 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Endowed funds are held at the Oklahoma City Community Foundation (OCCF). OCCF is a not-for-profit entity that provides for endowed contributions to be pooled to maximize return on investments for the benefit of area not-for-profit organizations. Contributions into the endowment fund are permitted by the Foundation, as well as individual donors in the community who designate the beneficiary of their contributions. Distributions from the endowment earnings are paid annually to the Foundation according to the OCCF's spending policy. The Foundation has authorized the OCCF to manage the endowment, effectively giving variance power to the OCCF. As the Foundation designated itself beneficiary for the endowment, the endowed funds contributed by the Foundation and the earnings thereon, net of distributions received, are reflected as beneficial interest in assets held by others in the amount of \$475,684 and \$440,778, respectively, as of January 31, 2013 and 2012. The endowed funds contributed by third party donors held by the OCCF designated for the benefit of the Foundation were \$143,560 and \$100,892, respectively, as of January 31, 2013 and 2012, and are not reflected in the Foundation's statement of assets, liabilities, and net assets – modified cash basis.

NOTE 7 – INVESTMENT INCOME

Investment income, net of investment expenses, is as follows for the year ended January 31:

	2013			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and Dividends				
Cash and Cash Equivalents	\$ 260	\$ -	\$ -	\$ 260
Mutual Funds: High Yield Bond Funds	-	285	-	285
Beneficial Interest in Assets Held By Others	-	4,494	-	4,494
<u> Total Interest and Dividends</u>	<u>\$ 260</u>	<u>\$ 4,779</u>	<u>\$ -</u>	<u>\$ 5,039</u>
Realized and Unrealized Gain (Loss), Net				
Mutual Funds: High Yield Bond Funds	\$ -	\$ -	\$ 383	\$ 383
Beneficial Interest in Assets Held By Others	-	-	47,153	47,153
<u> Total Realized and Unrealized Gain (Loss), Net</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,536</u>	<u>\$ 47,536</u>
Investment Income, Net	\$ 260	\$ 4,779	\$ 47,536	\$ 52,575



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 7 – INVESTMENT INCOME (Continued)

	2012			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and Dividends				
Cash and Cash Equivalents	\$ 415	\$ -	\$ -	\$ 415
Certificates of Deposit	-	16	31	47
Mutual Funds: High Yield Bond Funds	-	229	-	229
Beneficial Interest in Assets Held By Others	-	2,468	-	2,468
<u>Total Interest and Dividends</u>	<u>\$ 415</u>	<u>\$ 2,713</u>	<u>\$ 31</u>	<u>\$ 3,159</u>
Realized and Unrealized Gain (Loss), Net				
Mutual Funds: High Yield Bond Funds	\$ -	\$ -	\$ (445)	\$ (445)
Beneficial Interest in Assets Held By Others	-	-	12,622	12,622
<u>Total Realized and Unrealized Gain (Loss), Net</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,177</u>	<u>\$ 12,177</u>
Investment Income, Net	<u>\$ 415</u>	<u>\$ 2,713</u>	<u>\$ 12,208</u>	<u>\$ 15,336</u>

NOTE 8 – FAIR VALUE MEASUREMENTS

Inputs used to measure fair value are organized into a fair value hierarchy based on how observable the inputs are. Level 1 inputs consist of quoted prices in active markets for identical assets. Level 2 inputs are inputs other than quoted prices for similar assets that are observable. Level 3 inputs are unobservable inputs.

The Foundation's assets reported at fair value on a recurring basis are summarized as follows as of January 31:

	2013		
	LEVEL 1 INPUTS	LEVEL 2 INPUTS	LEVEL 3 INPUTS
Mutual Funds: High Yield Bond Funds	\$ 4,354	\$ -	\$ -
Beneficial Interest in Assets Held By Others (Note 6)	475,684	-	-
	<u>\$ 480,038</u>	<u>\$ -</u>	<u>\$ -</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 8 – FAIR VALUE MEASUREMENTS (Continued)

	2012		
	LEVEL 1 INPUTS	LEVEL 2 INPUTS	LEVEL 3 INPUTS
Mutual Funds: High Yield Bond Funds	\$ 3,972	\$ -	\$ -
Beneficial Interest in Assets Held By Others (Note 6)	440,778	-	-
	<u>\$ 444,750</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 – CAPITAL LEASES

The Foundation is the lessee of Cougar Crossing Apartments, Phase II, under a capital lease dated March 28, 2012 and expiring January 2063. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of the related lease terms or the estimated productive life. Depreciation of the assets under the capital lease is included in depreciation expense.

Following is a summary of property held under the capital lease as of January 31:

	2013	2012
Cougar Crossing Apartments, Phase II	\$ 3,100,000	\$ -
Less: Accumulated Depreciation	(38,750)	-
	<u>\$ 3,061,250</u>	<u>\$ -</u>

Minimum future lease payments under the capital lease for each of the next five years and in the aggregate are:

2014	\$ 379,965
2015	359,563
2016	368,552
2017	377,766
2018	387,210
2019 and Thereafter	32,252,712
<u>Total Minimum Lease Payments</u>	<u>\$ 34,125,768</u>
Less: Amount Representing Interest	(31,025,768)
<u>Present Value of Net Minimum Lease Payments</u>	<u>\$ 3,100,000</u>

The capital lease provides for a purchase option of the property during the term of the lease. The lease payments are guaranteed by RCC.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 10 – ENDOWMENT FUNDS

Endowment net assets include permanently restricted cash and cash equivalents, certificates of deposit, mutual funds, and beneficial interests in assets held by others.

Endowment net asset composition by type of fund is as follows as of January 31:

	2013			
	TEMPORARILY		PERMANENTLY	TOTAL
	UNRESTRICTED	RESTRICTED	RESTRICTED	
<u>Endowment Net Assets by Type of Fund</u>				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 483,326	\$ 483,326
<u>Total Endowment Net Assets by Type of Fund</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 483,326</u>	<u>\$ 483,326</u>

	2012			
	TEMPORARILY		PERMANENTLY	TOTAL
	UNRESTRICTED	RESTRICTED	RESTRICTED	
<u>Endowment Net Assets by Type of Fund</u>				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 448,038	\$ 448,038
<u>Total Endowment Net Assets by Type of Fund</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448,038</u>	<u>\$ 448,038</u>

Changes in endowment net assets are as follows for the year ended January 31:

	2013			
	TEMPORARILY		PERMANENTLY	TOTAL
	UNRESTRICTED	RESTRICTED	RESTRICTED	
<u>Endowment Net Assets, Beginning of Year</u>	\$ -	\$ -	\$ 448,038	\$ 448,038
<u>Investment Return:</u>				
Net Appreciation (Realized and Unrealized)	\$ -	\$ -	\$ 47,536	\$ 47,536
<u>Total Investment Return</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,536</u>	<u>\$ 47,536</u>
<u>Appropriation of Endowment Assets</u>				
Reinvestment of Unused Earnings	\$ -	\$ -	\$ 6,932	\$ 6,932
Distribution of Earnings	-	-	(19,180)	(19,180)
<u>Total Appropriation of Endowment Assets</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,248)</u>	<u>\$ (12,248)</u>
<u>Total Endowment Funds at January 31, 2013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 483,326</u>	<u>\$ 483,326</u>



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 10 – ENDOWMENT FUNDS (Continued)

	2012			
	TEMPORARILY RESTRICTED		PERMANENTLY RESTRICTED	TOTAL
	UNRESTRICTED	RESTRICTED	RESTRICTED	
<u>Endowment Net Assets, Beginning of Year</u>	\$ -	\$ -	\$ 391,270	\$ 391,270
<u>Investment Return:</u>				
Net Appreciation (Realized and Unrealized)	\$ -	\$ -	\$ 10,783	\$ 10,783
<u>Total Investment Return</u>	\$ -	\$ -	\$ 10,783	\$ 10,783
<u>Endowment Contributions</u>	\$ -	\$ -	\$ 62,300	\$ 62,300
<u>Appropriation of Endowment Assets</u>				
Distribution of Earnings	\$ -	\$ -	\$ (16,315)	\$ (16,315)
<u>Total Appropriation of Endowment Assets</u>	\$ -	\$ -	\$ (16,315)	\$ (16,315)
<u>Total Endowment Funds at January 31, 2012</u>	\$ -	\$ -	\$ 448,038	\$ 448,038

NOTE 11 – NET ASSETS

Net assets are available to be used for the following purposes as of January 31:

	2013	2012
<u>Unrestricted Net Assets</u>		
Net Investment in Property and Equipment	\$ 120,060	\$ 160,623
Undesignated	<u>76,596</u>	<u>62,617</u>
<u>Total Unrestricted Net Assets</u>	\$ 196,656	\$ 223,240
<u>Temporarily Restricted Net Assets</u>		
Scholarships	60,407	57,766
<u>Permanently Restricted Net Assets</u>		
Program Endowment Fund - With Income Restricted for Scholarships	<u>483,326</u>	<u>448,038</u>
	<u>\$ 740,389</u>	<u>\$ 729,044</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 11 – NET ASSETS (Continued)

Permanently restricted net assets were transferred to temporarily restricted net assets as funds become available through annual distribution from the Oklahoma City Communities Foundation. These temporarily restricted net assets are transferred back to the permanently restricted net assets if the amount received through distribution is in excess of the expenses that satisfy the restricted purposes of scholarships.

NOTE 12 – NET ASSET RESTATEMENT

Net assets as of January 31, 2012 were restated as follows:

Permanently restricted net assets of \$30,802 were reclassified to temporarily restricted net assets to properly reflect assets that were designated by donors to fund scholarships.

The following is a columnar representation of the restatement of net assets:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Net Assets - Beginning of Year, As Reported	\$ 223,240	\$ 26,964	\$ 478,840	\$ 729,044
Donor-Designated Funds for Scholarships	-	30,802	(30,802)	-
<u>Net Assets - Beginning of Year, Restated</u>	<u>\$ 223,240</u>	<u>\$ 57,766</u>	<u>\$ 448,038</u>	<u>\$ 729,044</u>

NOTE 13 – TAX EXEMPT STATUS

The Foundation has qualified as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) under a final ruling by the Internal Revenue Service dated May, 1977. Donations, bequests, legacies, transfers, or gifts to the Foundation are deductible for federal income tax purposes. The Foundation has no excise or unrelated business income and therefore no provision is necessary for income taxes.

Management has reviewed the Foundation's tax positions and concluded that there are no uncertain tax positions that require accrual in the financial statements or disclosure in the footnotes to be in compliance with authoritative literature. Generally, the Foundation is no longer subject to income tax examination by federal, state or local tax authorities for years prior to the fiscal year ended January 31, 2010.



Redlands Community College
Notes to Financial Statements
June 30, 2013

Note 13: Redlands Community College Foundation, Inc. (Continued)

NOTE 14 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. As of January 31, 2013, The Foundation had funds totaling \$23,088 in excess of federally insured limits that are subject to credit risk. The Foundation places its cash and cash equivalents with high credit quality financial institutions and, therefore, does not believe significant credit risk exists with these deposits.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Foundation leases certain properties to RCC on an annual basis. Lease income derived from these properties totaled \$6,501 for the years ended January 31, 2013 and 2012.

The Foundation has an agreement with RCC, whereas, RCC has agreed to manage and maintain the Cougar Crossing Apartments. The agreement commenced on August 15, 2012 and is automatically renewed annually unless official action not to extend the agreement is taken by either party. Under the agreement, RCC is to collect all rent revenue from the tenants and pay all of the expenses on behalf of the Foundation.

NOTE 16 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 24, 2014, the date the financial statements were available to be issued.

On August 15, 2013, RCC sent a request to the State of Oklahoma's Attorney General's office questioning the propriety of all involved to enter into such terms of the Ground Lease Agreement (Note 3), the Sublease Agreement (Note 9), and the Manage and Maintain Agreement (Note 15). After further review of the Manage and Maintain Agreement, the Attorney General's office notified RCC that all rent and related expenses must be paid directly by the Foundation. Therefore, for subsequent periods, the Foundation will be responsible for making all payments relating to this property. Additionally, the validity of the other agreements is under investigation and should be determined by the Attorney General's office at a later date. As of the report date, no decision has been made on the validity of these agreements. Management is uncertain as to the outcome of the Attorney General's decision. Any changes to these agreements could materially affect these financial statements.





**HINKLE &
COMPANY** PC
*Strategic
Business Advisors*

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Regents
Redlands Community College
El Reno, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Redlands Community College, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Redlands Community College's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Redlands Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Redlands Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Redlands Community College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, we consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a significant deficiency. The college's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the college's response and, accordingly, we express no opinion on it.

5028 E. 101st Street

Tulsa, OK 74137

TEL: 918.492.3388

FAX: 918.492.4443

www.SBAdvisors.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Redlands Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hilsh & Company, PC

Tulsa, Oklahoma
November 13, 2013





**HINKLE &
COMPANY**

PC
Strategic
Business Advisors

**Independent Auditors' Report on Compliance with Requirements
that Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with OMB Circular
A-133 and the Schedule of Expenditures of Federal Awards**

Board of Regents
Redlands Community College
El Reno, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Redlands Community College compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a material effect on each of the Redlands Community College's major federal award programs for the year ended June 30, 2013. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the Redlands Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

5028 E. 101st Street
Tulsa, OK 74137

TEL: 918.492.3388

FAX: 918.492.4443

www.SBAdvisors.com

Report on Internal Control Over Compliance

Management of the Redlands Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Redlands Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Redlands Community College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

H. White & Company, PC

Tulsa, Oklahoma
November 13, 2013



Redlands Community College
Schedule of Expenditures of Federal Awards
June 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education		
Student Financial Assistance		
Federal Pell Grant	84.063	\$ 3,114,522
Federal Supplemental Education Opportunity Grant	84.007	34,200
Federal Family Education Loans	84.032	2,579,371
Federal Work Study	84.033	50,687
Federal Academic Competitiveness Grant	84.375A	—
Total Student Financial Aid Cluster		<u>5,778,780</u>
TRIO Program Cluster		
Upward Bound	84.047A	311,230
Veterans Upward Bound	84.047V	247,986
Student Support Services	84.042A	<u>264,589</u>
Total TRIO Program Cluster		<u>823,805</u>
United States Department of Education – Other Programs		
Carl Perkins Vocational & Technical Funds	84.048	58,670
Carl Perkins Tech Prep	84.243	1,397
Strengthening Minority-Serving Institutions (NASNTI)		
Grant Award No. P382C110008 Oklahoma - 03	84.382C	<u>364,451</u>
		<u>424,518</u>
Total U.S. Department of Education		<u>7,027,103</u>
U.S. Department of Health and Human Services		
Passed through OSHRE		
Temporary Assistance to Needy Families	93.558	253,031
AHEC – Scholars for Excellence in Child Care	93.596	<u>62,527</u>
Total OSHRE		<u>315,558</u>
Passed through Area Agency on the Aging		
Title III-B	93.044	93,100
Title III-C	93.045	248,834
Title III-E	93.052	4,975
NSIP	93.053	<u>18,610</u>
Total Area Agency on the Aging		<u>365,519</u>
National Institute for Health and Human Services		
East Central University		
Initiative for Minority Students: Bridges to		
Baccalaureate Degree	93.960	<u>11,556</u>
Total Initiative for Minority Students		<u>11,556</u>
Total U.S. Department of Health and Human Services		<u>\$ 692,633</u>



Redlands Community College
Schedule of Expenditures of Federal Awards
June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Oklahoma Manufacturing Alliance	11.611	<u>89,751</u>
Total U.S. Department of Commerce		<u>89,751</u>
National Science Foundation		
Passed through Missouri State University		
VESTA	47.076	<u>88,718</u>
Total National Science Foundation		<u>88,718</u>
TOTAL EXPENDITURES FOR FEDERAL AWARDS		<u>\$ 7,898,205</u>



Redlands Community College
Notes to Schedule of Expenditures of Federal Awards
June 30, 2013

Note 1: Summary of Significant Accounting Policies

The schedule of expenditures of federal awards includes the federal awards activity of Redlands Community College (the College) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented, in or used in the preparation of, the basic financial statements.

Note 2: Federal Family Education Loan Program

The College participates in the Federal Family Education Loan Program, CFDA Number 84.032 (the FFEL Program), which includes the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate students. The FFEL Program does not require the College to draw down cash; however, the College is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies.

Note 3: Subrecipients

During the year ended June 30, 2013, the College did not provide any federal awards to subrecipients.



Redlands Community College
Schedule of Findings and Questioned Costs
June 30, 2013

Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
2. The independent accountants' report on internal control over financial reporting described:
Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No
Significant deficiency(ies) noted that are not considered to be a material weakness? ☒ Yes ☐ No
3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No
Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No
7. The College's major program was:

<u>Program/Cluster</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	84.063, 84.032, 84.033, 84.007 and 84.375A
Strengthening Minority Serving Institutions (NASNTI)	84.382.c

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The College qualifies as a low-risk auditee as defined by OMB Circular A-133.



Redlands Community College
Schedule of Findings and Questioned Costs
June 30, 2013

Section II – Financial Statements Findings and Questioned Costs

Finding 2013-01

Condition

The College did not reconcile the clearing account on a monthly basis. Additionally, reconciling items on the College's bank reconciliation are not being cleared and proper adjustments made to the accounting records.

Criteria

The College should have policies and procedures in place that maintain accurate accounting records. This includes reconciling all bank accounts monthly and making necessary adjustments timely.

Cause

The reconciling items listed on the monthly bank reconciling are not being addressed timely and required adjustments are not being made timely. Additionally, the agency clearing account is not being reconciled monthly.

Management Comment

Management agrees with the finding and stated that they will institute the necessary review procedures to ensure all accounts are reconciled and any necessary adjustments made on the accounting records timely.

Recommendation

To have controls and staff in place to reconcile the bank accounts on a monthly basis and to make the necessary adjustments as needed to keep the books current.

Section III – Federal Awards Findings and Questioned Costs

No matters are reportable.



Redlands Community College
Summary Schedule of Prior Audit Findings
June 30, 2013

Prior Year Findings

Finding 2012- 1

Criteria: The regulations in 34 CFR 668.22 state that a school must always return any unearned Title IV funds it is responsible for returning within 45 days of the date the school determined the student withdrew.

Condition: For the year ended June 30, 2012, we sampled 60 Title IV fund recipients for testing the financial aid compliance requirements for loan disbursements. However, of those who received loan disbursements, but later withdrew, we noted 5 instances of non-compliance in that the institution did not meet the compliance requirement to return the Title IV funds within the 45 day time period.

Cause: The individual assigned to area of work was not completing the Return of Title IV Calculation Worksheets in a timely manner.

Effect: As a result, the college did not meet the return of Title IV funds within the 45 day requirement.

Recommendation: For the college to review every 20 days, all students who have withdrawn to ensure that when refunds of Title IV funds are required, that the return of Title IV funds are returned within the proper time period.

Responsible Official's Response and Corrective Action Planned: Management has created a mandatory review of the known withdrawals every 20 days by the financial aid director.

Status: The College has fully implemented the auditor's recommendation and put in place the internal controls that will help insure timely Title IV refund processing.

